Food Fair Stores, Inc.
1975 Annual Report

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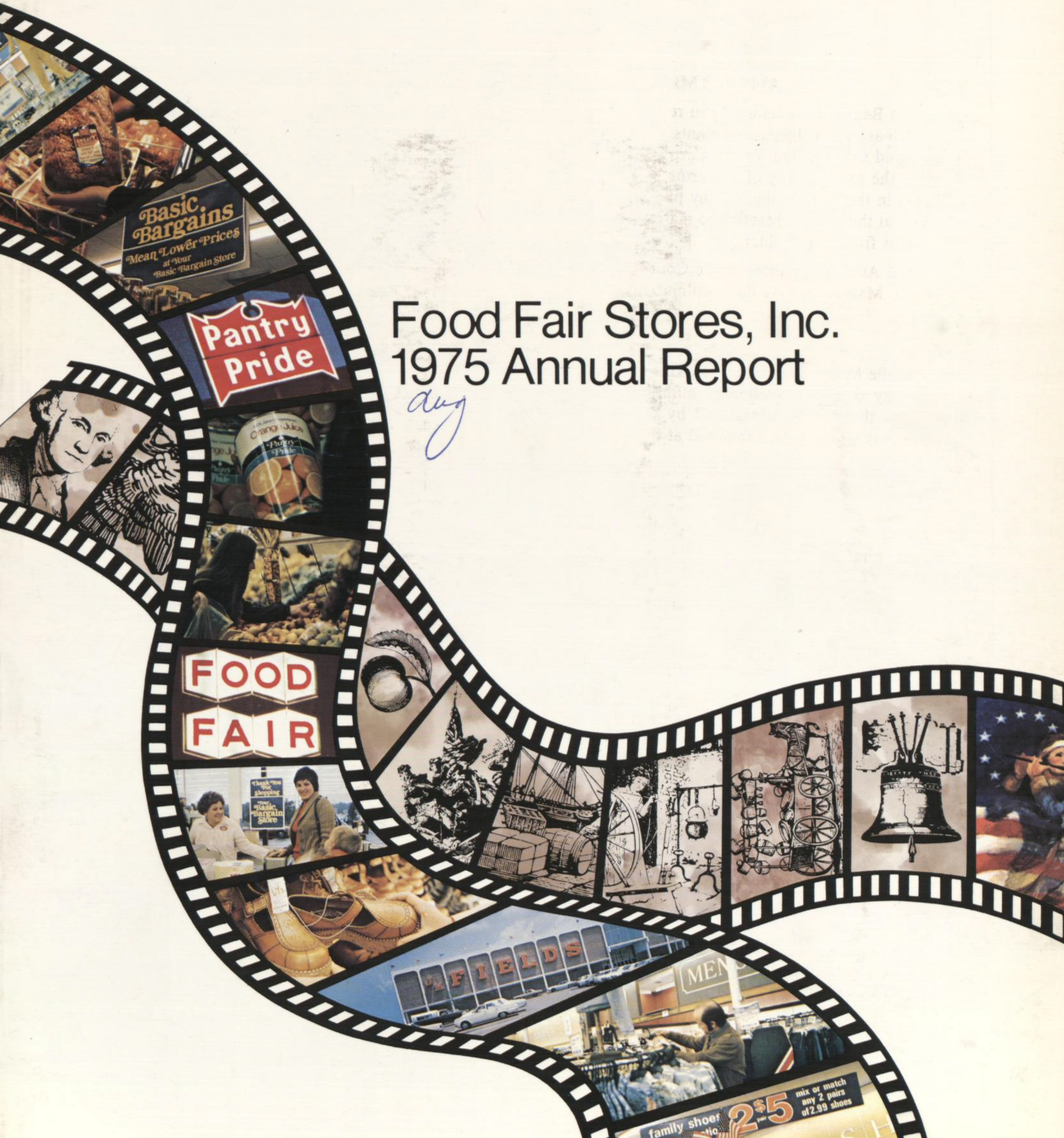


Description of Business

Food Fair Stores, Inc. is one of the nation's largest retail food and general merchandise chains. At fiscal year end, there were 459 Pantry Pride and Food Fair supermarkets and 85 J. M. Fields discount department stores serving consumers in 14 eastern seaboard states from New Hampshire to Florida.

The Company is also engaged in the manufacture and processing of foods for sale in its stores as well as to others, and has several non-food related operations. These include Washington Square Life Insurance Company, a national marketer of life insurance, and Ideal Shoe Company which operates leased shoe departments in retail stores, including J. M. Fields.

In addition, the Company owns 40% of the common stock and all of the preferred stock of Amterre Development Inc, a large owner and developer of shopping centers and other real properties.

Cover

The Bicentennial celebration with its focus on Philadelphia, the birthplace of the nation and corporate home for Food Fair Stores, Inc., prompts this year's cover. It recognizes our heritage and heroes and contrasts them with scenes reflecting the modern miracle of mass distribution developed by 20th century pioneers.

Annual Meeting

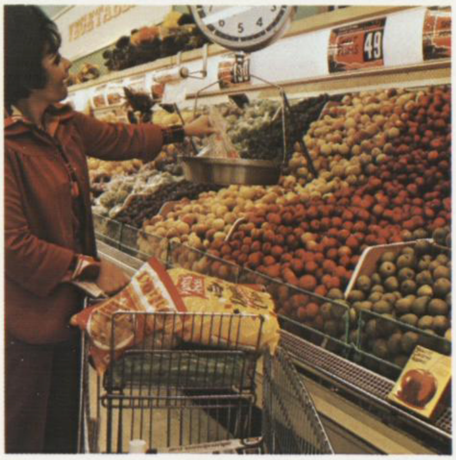
The annual meeting of shareholders will be held Tuesday, November 18, 1975, at 2 P.M., local time, in the Bellevue Stratford Hotel, Broad and Walnut Sts., Philadelphia. Shareholders are cordially invited to attend. A notice of the meeting, a proxy statement and proxy form are included with this report to each shareholder of record as of October 17, 1975.

Form 10-K

A copy of Form 10-K for the fiscal year ended August 2, 1975, which has been filed with the Securities and Exchange Commission, is available to shareholders at no charge upon written request to: Office of the Corporate Secretary, Food Fair Stores, Inc., 3175 J. F. Kennedy Boulevard, Philadelphia, PA 19101.

Common Stock Traded

New York Stock Exchange
PBW Stock Exchange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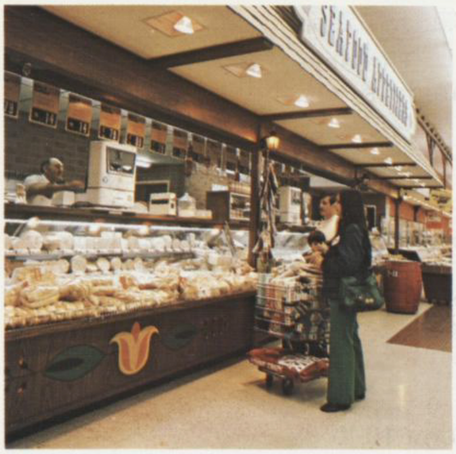
Frozen Food




Orange Juice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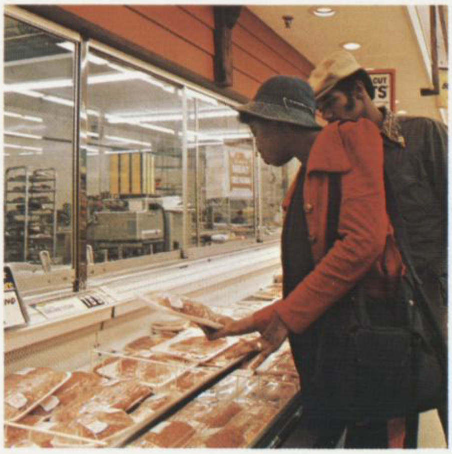


To Our Shareholders:

We are pleased to report a resumption of profitable operations in the fourth quarter of the fiscal year, after suffering serious setbacks in the second and third quarters because of store employe strikes in more than half of our supermarkets, and despite continuing substantial losses in our discount department stores during the entire year.

A 34% gain in fourth quarter earnings over the comparable year-earlier period and a 12% gain in the first quarter could not overcome the second and third quarter losses. As a result, the Company incurred a fiscal year loss of $3.4 million. Earnings of $8.9 million were recorded the previous year. Sales rose to $2.5 billion from $2.4 billion.

While the fiscal year results were disappointing, the supermarket division, which accounts for some 80% of total Company sales, was able to achieve the second highest pre-tax earnings of the last five years, despite the losses incurred during and after the work stoppages.

Six new food markets were opened during the year and 25 stores were remodeled, including 14 converted to discount operations. Seventeen units were closed.

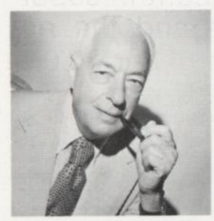
Two new J. M. Fields discount department stores were opened during the year and two older units were closed.

At fiscal year end there were 459 supermarkets and 85 discount department stores in operation.

We note with sorrow the death in recent months, of two corporate vice presidents, both long-time employes, who made substantial contributions to the progress of the Company: Joseph H. Rash, director of Maryland and Virginia Operations, and Jacob I. Gottlieb, president of J. M. Fields, and a Director.

Mr. Rash had served the Company for 35 years in operations and buying posts and later as an assistant secretary and since 1961 as a corporate vice president.

Mr. Gottlieb joined the Company in 1961 with the acquisition of Ideal Shoe Company of which he was president. In 1965 he was named executive vice president of J. M. Fields and three years later was elevated to the presidency.



Joseph H. Rash

Jacob I. Gottlieb

Capital expenditures for 1976 have been committed in large part to the supermarket division for the renovation and enlargement of select stores and the conversion of our remaining conventional Food Fair markets to discount operations. Our new-store building program will be modest, in consideration of the uncertain economy.

In the discount department store division, management's efforts will be devoted to the strengthening of merchandising programs, the reduction of operating costs, the upgrading of lines, particularly fashion ready-to-wear apparel, and the closing of certain unprofitable units.

Forecasts call for a slow but steady improvement in the economy. Consumer confidence is on the rise. This has been reflected at J. M. Fields stores where sales in recent months have surpassed year-ago levels. A continuation of this trend, coupled with an expected improvement in supermarket earnings and the enthusiastic support of our 35,000 co-workers, should make 1976 a year of positive growth.

Sincerely,

Myer B Marcus   Jack Friedland

Myer B. Marcus, Chairman
Jack Friedland, President

October 25, 1975

Financial Highlights

	52 Weeks Ended August 2, 1975	53 Weeks Ended August 3, 1974
Sales	$2,482,539,000	$2,369,761,000
Net Income (loss)	($ 3,434,000)	$ 8,926,000
Cash Dividends	$ 1,566,000	$ 1,597,000
Current Assets	$ 276,200,000	$ 305,574,000
Current Liabilities	$ 169,791,000	$ 187,484,000
Shareholders' Equity	$ 134,511,000	$ 140,208,000


Myer B. Marcus


Jack Friedland

Management Review Of Operations

Supermarkets

Supermarket sales and earnings growth was adversely affected by the strikes affecting more than half of our supermarkets.

A store clerks' strike in the Philadelphia area resulted in the shutdown of 100 of our markets for 16 days. Shortly thereafter, a meatcutters' work stoppage affected the operation of 150 stores in Florida, some for as long as three weeks. Regaining lost sales after the strikes was costly, particularly in the present economic environment, marked by consumers' selective food purchases and heightened competition.

In spite of the strikes, the supermarkets achieved earnings of $30.7 million, before

taxes and unallocated expenses, the second highest in the last five years. Supermarket sales rose 4% to $1.9 billion.

Substantial increases in operating costs were incurred during the year, particularly for utilities, payroll and supplies. Energy costs, for example, increased by 30%, or $6 million.

Six new supermarkets were opened in fiscal 1975, including one 60,000 square-foot "super store" in suburban Baltimore. This Pantry Pride Discount Center, a pilot project, offers shoppers a wide variety of non-foods, including small appliances, housewares, soft goods, health and beauty aids, and a full-service pharmacy. Consumer response has been encouraging.

The other new units, all in the 30,000 to 35,000 square-foot range, were opened in Philadelphia, Sanford, Fla., Virginia Beach, Va., and Hagerstown and Landover, Md.

In a major facilities-improvement program, 25 existing supermarkets were remodeled, including three units which were substantially enlarged. Of the 25 refurbished stores, 14 conventional Food Fair supermarkets were also converted to discount operations, most of them in south Florida.

These discount stores, the majority of them known as Pantry Pride, are geared for high volume sales and offer greater values to consumers than conventional supermarkets.

Consumers were increasingly more selective in their supermarket purchases in 1975, reflecting the state of the economy. They shifted from more expensive products to less costly items which offered comparable nutritional value.

Responding to this change in traditional buying patterns, our merchandising programs were heavily oriented to consumer savings in the basic necessities in meal planning. Pantry Pride private label merchandise, offering quality and price-saving, was increasingly featured.

Training and re-training programs for employes were substantially expanded. Additional area training schools were set up to prepare new employes for their work assignments, as well as providing centers for refresher training for experienced co-workers. Continued stress was placed on cost control, particularly of inventory, utility and supply costs. Seminars and special programs were given to store

The Management Review should be read in conjunction with the "Summary of Operations" and "Operating Results by Lines of Business," pages 10 and 11.

managers and middle management personnel to improve their technical and administrative skills.

Marvin Lerner joined the Company as a Pantry Pride Supermarket Divisional staff vice president responsible for operating services. Mr. Lerner had previously been president of a New York city-based supermarket chain.

Discount Department Stores

J. M. Fields discount department stores' operating loss increased substantially as consumers continued to struggle with the twin specters of inflation and recession. The resultant limitation on their discretionary purchases triggered strong promotional efforts among general merchandise retailers to stimulate sales. Competitive pressures caused increased markdowns and lower gross margins.

While these efforts were costly, we were successful in maintaining sales at previous year's levels with the exception of major appliances, sales of which were off nationally. Overall sales were $311 million compared with $318 million a year ago.

Through tighter control, inventories at year end were $10 million lower than at the end of the preceding year. The stores are in a much sounder inventory-to-sales position than a year ago.

Sharp increases in operating expenses were incurred during the year, particularly for wages, supplies, services and utilities. Utility costs alone rose by $2 million. In addition, management assumed a conservative position in view of unsettled economic conditions and increased its bad debt provision for credit sales by approximately $1.2 million. These and other rising costs contributed to the operating loss for the year of $18 million, before tax benefits and unallocated expenses.

However, in the fourth quarter, an improvement in sales and gross margins was noted and this trend has carried into the 1976 fiscal first quarter.

Management is continuing with a reassessment of its trading areas, with a view to weeding out non-productive operations and/or departments. Since the close of the fiscal year, a small J. M. Fields store in Swampscott, Mass., has been sold.

In fiscal 1975, J. M. Fields opened new stores in Utica,

N.Y., and Pottstown, Pa., and closed units in St. Petersburg, Fla., and Branford, Conn. The number of units in operation at year end remained at 85. J. M. Fields stores serve communities in 11 states along the eastern seaboard from New Hampshire to Florida.

Upgrading of certain departments continues to take top priority. A study of consumer attitudes dictated a move towards better quality, higher fashion appeal, particularly in women's sportswear and children's apparel. Consumer acceptance has been encouraging and this program will be expanded to include all apparel and accessories, including shoes.

Concentration is also being placed on developing a strong private label program embracing basic products in soft and hard lines categories.

An expanded program of product testing has been developed, and a buying office has been established in Hong Kong to further assure the quality and value of products imported from the Far East.

A number of organizational and administrative changes were made reflecting the emphasis on decentralization through providing strong merchandising support in the field. In this connection, apparel district managers were assigned to field operations, each serving a specific marketing area.

During the year, Ralph Blumenstock, an experienced executive in discount department store operations, joined J. M. Fields as vice president and general merchandise manager for apparel.

John R. Johnson joined the Company as treasurer of J. M. Fields. Mr. Johnson, who has a broad financial background in the mass merchandising industry, directs all control and finance activities of J. M. Fields. His immediate major priorities are the implementation of cost control programs and the development of programs for better utilization of Company assets.

Jacob I. Gottlieb, president of J. M. Fields, died suddenly in August. Mr. Gottlieb had served as president of J. M. Fields since 1968 and for three years before that as executive vice president.

Other Operations

The Company is involved in a number of diverse operations largely in food manufacturing and processing. These include two slaughterhouses, a meat cutting and boning operation, and facilities for baking, coffee roasting, tea packaging and soda bottling and canning. These facilities supply private label products to Company outlets and service outside customers as well.

Sales from these operations to outside customers were $205 million, up from $158 million the year before, and accounted for 8% of total Company sales.

These operations showed a loss of $500,000 compared with earnings of $3.5 million a year ago, before taxes and unallocated expenses. This was due in large measure to a decline in earnings of our slaughtering plants which were faced with higher costs of live cattle and resistance of consumers to higher retail prices. Conditions have improved and these plants are now operating on a profitable basis.

The other manufacturing and processing facilities operated profitably during the year.

An unprofitable facility in Pennsville, New Jersey, which had manufactured pretzels, potato chips, cookies and peanut butter was closed at the end of the year.

Jay Gross joined the Company's Washington Square Life Insurance Co. as vice president and general manager. Mr. Gross has many years of experience in life insurance sales and marketing.

Interest

Although the average interest rate in 1975 was 9.2% compared with 10.4% in the preceding year, the need for additional borrowings to satisfy working capital requirements resulted in an increase of $2.0 million in interest expense.

FOOD FAIR STORES, INC.

3175 John F. Kennedy Boulevard
Philadelphia, Pennsylvania 19101

Notice of Annual Meeting of Shareholders

TO THE SHAREHOLDERS:

Notice is hereby given that the Annual Meeting of Shareholders of Food Fair Stores, Inc., will be held in the Clover Room, Bellevue Stratford Hotel, Broad & Walnut Streets, Philadelphia, Pennsylvania, on Tuesday, November 18, 1975 at 2:00 o'clock in the afternoon (Local Time), for the following purposes:

1. To elect thirteen directors of the Corporation to hold office for the ensuing year; and

2. To consider and transact such other business as may properly come before the meeting or any adjournments thereof.

A Proxy Statement and the Annual Report of the Corporation for the fiscal year ended August 2, 1975 are enclosed herewith. Shareholders of record at the close of business on October 17, 1975 will be entitled to notice of and to vote at said meeting or any adjournments thereof.

If you cannot be present at the meeting, will you kindly sign, date and return the enclosed form of proxy in the envelope provided.

BY ORDER OF THE BOARD OF DIRECTORS

B. F. LIEBER, *Secretary*

Philadelphia, Pa.
October 27, 1975

FOOD FAIR STORES, INC.

3175 John F. Kennedy Boulevard
Philadelphia, Pennsylvania 19101

PROXY STATEMENT

Annual Meeting of Shareholders
To Be Held November 18, 1975

To the Holders of Common Stock of
Food Fair Stores, Inc.:

This statement is furnished on October 27, 1975, in connection with the solicitation by Management of proxies to be used at the Annual Meeting of Shareholders of Food Fair Stores, Inc. (the "Corporation") to be held on November 18, 1975 in Philadelphia, Pennsylvania, and at any adjournments thereof. All shareholders of record at the close of business on October 17, 1975 are entitled to notice of, and to vote at, such meeting. The stock transfer books will not be closed.

Any proxy, if received in time for voting and not revoked, will be voted at the meeting in accordance with the directions of the shareholder. Any shareholder giving a proxy has the power to revoke it at any time before it is exercised. All expenses incurred in connection with this solicitation will be borne by the Corporation.

Management does not know of any matters which will be brought before the meeting other than those specifically set forth in the notice thereof. However, if any other matter properly comes before the meeting, it is intended that the persons named in and acting under the enclosed form of proxy, or their substitutes, will vote on such matter in accordance with their best judgment.

At the close of business on October 17, 1975, the Corporation had outstanding 7,360,801 shares of Common Stock (net of 196,577 shares held in treasury). Except for the election of directors, which shall be by cumulative vote, each share of Common Stock entitles the holder thereof to one vote on the matters to be voted upon by such shareholders. In addition, 21,214 shares of the Corporation's Preferred Stock were outstanding as of the close of business on October 17, 1975. The holders of Preferred Stock will not be entitled to vote at the meeting.

PRINCIPAL HOLDERS OF VOTING SECURITIES

Samuel Friedland, a Director and Chairman of the Executive Committee of the Board of Directors, is the record and beneficial owner of 75,920 shares of Common Stock of the Corporation, constituting 1.0% of such shares outstanding. Hasam Realty Corp. is the record owner of 1,047,063 shares (14.2%) of Common Stock. All of the outstanding stock of Hasam Realty Corp. is owned by Samuel Friedland or members of his family, including Jack Friedland and Harold Friedland, officers and directors of the

Corporation, or by trusts for their benefit. Samuel Friedland, Jack Friedland and Louis Stein are among the trustees of various of such trusts.

In addition to the above, 15,957 shares (0.2%) of Common Stock are owned of record by Samuel Friedland as trustee for the benefit of members of his family, and Mr. Friedland is President and a Trustee of the Samuel Friedland Family Foundation, a charitable foundation, which owns 114,965 shares (1.5%) of the Corporation's Common Stock. Samuel Friedland's wife owns an additional 15,305 shares (0.2%) of Common Stock.

ELECTION OF DIRECTORS

At the Annual Meeting of Shareholders, thirteen directors are to be elected, each to hold office pursuant to the Corporation's By-Laws for the term of one (1) year and until his successor shall be elected and qualify.

Unless otherwise instructed, shares represented by the proxies will be voted for the election of the nominees listed below, all of whom are members of the present Board of Directors. In the event that any of such nominees shall become unavailable for any reason, an event which Management does not anticipate, it is intended that proxies will be voted for substitute nominees designated by Management.

The following table sets forth, with respect to each nominee as a director, his principal occupation, the year in which he first became a director of the Corporation, and the number of shares of Common Stock of the Corporation which he owned beneficially, directly or indirectly, as of September 30, 1975:

Name	Principal Occupation	Year First Became a Director	Common Stock Owned Beneficially Directly or Indirectly(1)
Louis Stein	Chairman, Finance Committee	1937	21,818(2)
Samuel Friedland	Chairman, Executive Committee	1937	(3)
Myer B. Marcus	Chairman, Board of Directors	1937	75,140(5)
George Friedland	Retired, former Vice Chairman of the Board of the Corporation	1937	292,208(6)
Hess Kline	Chairman of the Board, George Allen, Inc., Philadelphia, Pa.	1937	246,055(7)
Arthur Rosenberg	Retired, former Senior Vice President of the Corporation	1940	61,660(8)
Jack Friedland	President and Chief Executive Officer	1952	72,511(4)
Herman R. Silver	Retired, former Vice President of the Corporation	1952	55,710(9)

Name	Principal Occupation	Year First Became a Director	Common Stock Owned Beneficially Directly or Indirectly(1)
D. Frederick Barton	Limited Partner, Eastman Dillon Union Securities & Co., New York, N. Y.	1957	500
W. Paul Stillman	Chairman, Board of Directors, First National State Bank of New Jersey, Newark, N. J.	1958	417
Samuel P. Mandell	Investor	1961	70,239(10)
William P. Davis, III	Chairman, Executive Committee, First Pennsylvania Bank, N.A., Phila., Pa.	1969	100
Harold Friedland	Vice President	1969	—

(1) As of September 30, 1975, no individual listed owned, directly or indirectly, any shares of the Corporation's Preferred Stock.

(2) Exclusive of 24,706 shares held by Mr. Stein's wife and 24,739 shares held of record by Mr. Stein as co-trustee for the benefit of others. See Note 4 below. See also "Principal Holders of Voting Securities" above.

(3) See "Principal Holders of Voting Securities" above for information with respect to the stock ownership of Mr. Friedland.

(4) Exclusive of 1,477 shares held by Jack Friedland's wife, and 11,129 shares held by Louis Stein as co-trustee for the benefit of Mr. Friedland. See also "Principal Holders of Voting Securities" above.

(5) Exclusive of 33,014 shares held by Mr. Marcus' wife and 8,286 shares held of record by Mr. Marcus as trustee for the benefit of members of his family.

(6) Exclusive of 4,172 shares held by Mr. Friedland's wife.

(7) Exclusive of 80,030 shares held by Mr. Kline's wife.

(8) Exclusive of 1,725 shares held of record by Mr. Rosenberg as trustee for the benefit of members of his family.

(9) Exclusive of 48,529 shares held by Mr. Silver's wife.

(10) Exclusive of 5,389 shares held by Mr. Mandell's wife.

Remuneration of Directors and Officers

There is set forth below, with respect to each person who was a director or one of the three highest paid officers of the Corporation during the fiscal year ended August 2, 1975, and whose direct aggregate remuneration exceeded $40,000.00, and with respect to all directors and officers of the Corporation as a group, the capacity in which such remuneration was paid, the aggregate direct remuneration paid by the

Corporation or its subsidiaries during such year, and the estimated annual retirement benefits under the Corporation's Employees' Retirement Plan (the "Plan"):

Name of Individual or Identity of Group	Capacities in Which Remuneration Was Received	(A) Aggregate Remuneration	(B) Estimated Annual Retirement Benefits Under The Plan (1)(2)
Myer B. Marcus	Chairman of the Board of Directors	$ 125,000	$80,783
Jack Friedland	President and Chief Executive Officer	125,000	66,999
Louis Stein	Chairman, Finance Committee	86,667	—
Harold Friedland	Vice President	125,000	70,852
All Directors and Officers (comprising 21 persons) as a Group		1,027,829	—

(1) Effective January 1, 1971, the Corporation amended and restated its Incentive Bonus and Retirement Plan ("the prior plan") from a profit-sharing plan to a pension plan. All employees who severed employment, retired or reached normal retirement age before January 31, 1971 are entitled only to the benefits provided under the prior plan. The restated plan covers all members of the prior plan and all other eligible full-time salaried employees of the Corporation who completed one year of continuous employment on January 1, 1971. All other salaried employees become eligible for membership in the plan on the anniversary date following the completion of one year of continuous service, provided they had not then attained the 65th anniversary of their date of birth. Retirement pensions are determined in accordance with a formula stated in the plan. The Corporation's annual contribution to the plan is actuarially determined.

(2) The amounts set forth in column B represent estimated annual benefits payable at normal retirement date. Such amounts are based upon the assumption that each person for whom an amount is stated will continue in the employ of the Corporation until the normal retirement age 65, and that the amount of his compensation as of January 1, 1971 will remain constant to the date of his retirement.

TRANSACTIONS WITH CERTAIN PARTIES

During the fiscal year ended August 2, 1975, the Corporation, in the ordinary course of its business, effected a series of purchases at wholesale of fresh peaches from or through Consolidated Agriculture and Industries Corporation ("Consolidated"), 29% of the outstanding capital stock of which is owned by certain directors of the Corporation and members of their families. Consolidated is a major fruit growing concern, and has also operated, since July 1, 1965, a division engaged in the fruit brokerage business. Mr. Samuel P. Mandell, a director of the Corporation, is an officer and director of Consolidated. The Corporation also purchases peaches through other sources, and its purchases from or through Consolidated, when made, are effected in the open market on the basis of the price and quality of such fruit at the time of each purchase. In the year ended August 2, 1975, the Corporation bought a total of $186,576 of peaches grown by Consolidated or purchased through its brokerage division. During such year, the Corporation's purchases of peaches from or through Consolidated were 11.4% of its total purchases of peaches. In the ordinary course of events it is anticipated that the Corporation's future purchases of peaches will continue to include fruit grown by Consolidated or purchased through its brokerage division.

The Corporation has leased from Diplomat Mall Shopping Center, Inc., a subsidiary of Hasam Realty Corp. (see "Principal Holders of Voting Securities") a food supermarket and J. M. Fields Department Store aggregating 103,900 square feet, in a shopping center owned by Hasam and located in Hallandale, Florida. The lease, which commenced September 17, 1970, provides for a twenty-year term, with five 5-year renewal options, at a minimum annual rental of $275,880. The lease also provides for a percentage rental of 1% of gross supermarket sales and 2% of gross department store sales less the minimum net rental and taxes on the premises. Management believes that the terms of the foregoing lease were fair and equitable to the Corporation and not less favorable than those available from unaffiliated third parties.

On November 2, 1973, the Corporation sold the assets of two subsidiary corporations engaged in the business of food purveying and institutional and in-plant feeding to Mandell #1, Inc. ("Mandell"). Mandell is controlled by Samuel P. Mandell, a director of the Corporation. As part of such transaction, the Corporation leased to Mandell a portion of a warehouse in Philadelphia. The lease, covering 68,800 square feet, is for a term of five years expiring August 31, 1978, and provides for a minimum rental of $87,000 plus a pro rata share of increases in real estate taxes and certain other charges plus one percent of tenant's sales between $10 million and $20 million. Management believes that the terms of such lease were fair and equitable to the Corporation and not less favorable than those available from unaffiliated third parties. Mandell also leases a public cafeteria and newsstand on the main floor at the Food Fair Building, Philadelphia, for a term expiring June 30, 1983, at an annual rental of $35,000 plus 4% of gross sales of the newsstand.

Mandell also services the Corporation's employee cafeterias in Philadelphia and at its Linden, New Jersey warehouse, supplying food, service and management on the basis of cost plus 10% of sales. During the fiscal year ended August 2, 1975, the Corporation paid Mandell a total of $134,560 for food and food services so supplied. These arrangements are terminable by either party at will.

During the fiscal year ended August 2, 1975, the Corporation, in the ordinary course of business, sold $248,991 in groceries, produce and meats at wholesale to Mandell. Such sales were effected on the basis of prices and quality at the time of the transaction. During such year, the Corporation's sales to Mandell were less than 1% of its total wholesale sales of such merchandise. In the ordinary course of events, the Corporation may continue to do business with such purchaser.

On November 27, 1974, the Corporation purchased 15,000 shares of Common Stock each from Jack Friedland, President and Director of the Corporation, and Harold Friedland, Vice President and Director (as well as a like number of shares from Leonard Friedland, an employee of the Corporation). The purchase price for such shares was $4.625 per share, the price of the last trade on the New York Stock Exchange on November 26, 1974. Including such shares, the Corporation has acquired a total of 196,577 shares of Common Stock through purchases in the open market and privately, all at prices below book value, for utilization in a contemplated employee stock purchase or option plan. Such purchases increased the per share equity of remaining shareholders and thus will reduce any dilution resulting from the Corporation's issuance of additional shares under any such plan. Management, however, has deferred the adoption of any such plan pending resolution of proposals now before the Congress which might substantially alter the tax consequences of certain types of employee stock purchase or option plans.

APPOINTMENT OF INDEPENDENT ACCOUNTANTS

The Board of Directors, upon recommendation of its Audit Committee, has appointed Laventhol & Horwath as independent accountants of the Corporation for its 1976 fiscal year. Laventhol & Horwath has performed this function for the Corporation for many years. The firm has advised the Corporation that neither the firm nor any of its partners has any direct financial interest or any material indirect financial interest in the Corporation or any of its Subsidiaries. Representatives of Laventhol & Horwath will be present at the Annual Meeting to make a statement if they desire to do so, and to respond to appropriate questions from shareholders.

The Audit Committee of the Corporation is comprised of Messrs. William P. Davis, III, Chairman, Myer B. Marcus and W. Paul Stillman.

OTHER MATTERS

While Management does not know of any other matters which may be brought before the meeting, the proxy confers discretionary authority with respect to the transaction of any other business. It is expected that shares represented by proxies will be voted in support of Management on any question which may properly be submitted at the meeting.

B. F. LIEBER
Secretary

Philadelphia, Pa.
October 27, 1975

Financials

Five Year Summary of Operations

Food Fair Stores, Inc. and Subsidiaries

	Fifty-two weeks ended	Fifty-three weeks ended	Fifty-two weeks ended		
	August 2, 1975	August 3, 1974	July 28, 1973	July 29, 1972	July 31, 1971
			(000's omitted)		
Income:					
Sales	$2,482,539	$2,369,761	$2,092,127	$1,980,458	$1,805,855
Equity in earnings of unconsolidated subsidiaries	927	1,340	778	872	717
Other	2,592	2,212	1,201	825	539
	2,486,058	2,373,313	2,094,106	1,982,155	1,807,111
Costs and expenses:					
Costs of sales	2,006,177	1,905,937	1,699,929	1,611,094	1,452,985
Operating, general and administrative expenses	473,535	442,452	374,057	352,165	320,232
Interest	13,831	11,833	12,018	8,196	7,723
	2,493,543	2,360,222	2,086,004	1,971,455	1,780,940
Income (loss) before income taxes	(7,485)	13,091	8,102	10,700	26,171
Income taxes (benefits)	(4,051)	4,165	1,940	3,698	12,255
Income (loss) from continuing operations	(3,434)	8,926	6,162	7,002	13,916
Loss from discontinued operations				(5,451)	(3,066)
Income (loss) before extraordinary items	(3,434)	8,926	6,162	1,551	10,850
Extraordinary items			(4,031)	(2,949)	549
Net income (loss)	($ 3,434)	$ 8,926	$ 2,131	($ 1,398)	$ 11,399
Income (loss) per share of common stock:					
Continuing operations	($ .48)	$ 1.18	$ .80	$ .91	$ 1.83
Discontinued operations				(.72)	(.41)
Income (loss) before extraordinary items	(.48)	1.18	.80	.19	1.42
Extraordinary items			(.53)	(.39)	.07
Net income (loss)	($ .48)	$ 1.18	$ .27	($ .20)	$ 1.49
Weighted average number of common shares outstanding during the year	7,380,145	7,508,754	7,556,211	7,556,378	7,556,378
Cash dividends per share:					
Common share	$ .20	$ .20	$ .20	$ .55	$ .90
Preferred share	$ 4.20	$ 4.20	$ 4.20	$ 4.20	$ 4.20

Operating Results by Lines of Business

Food Fair Stores, Inc. and Subsidiaries

	Year Ended Nearest July 31:									
	1975		(53 weeks) 1974		1973		1972		1971	
	($ in millions)									
Sales:										
Supermarket operations:										
Continuing	$1,966.3	79%	$1,893.6	79%	$1,591.8	76%	$1,504.7	72%	$1,394.2	73%
Discontinued	—		—		—		103.8	5	122.3	6
Discount department stores	310.8	13	318.5	14	313.9	15	291.9	14	255.2	13
Other	205.4	8	157.6	7	186.4	9	183.8	9	156.4	8
Total sales	$2,482.5	100%	$2,369.7	100%	$2,092.1	100%	$2,084.2	100%	$1,928.1	100%
Operating profit (loss):										
Supermarket operations:										
Continuing	$ 30.7	256%	$ 34.7	115%	$ 21.0	83%	$ 19.4	121%	$ 29.6	91%
Discontinued	—		—		—		(7.6)	(47)	(5.0)	(15)
Discount department stores	(18.2)	(152)	(8.1)	(27)	1.9	8	1.9	12	5.8	17
Other	(.5)	(4)	3.5	12	2.2	9	2.3	14	2.2	7
Total operating profit	12.0	100%	30.1	100%	25.1	100%	16.0	100%	32.6	100%
Unallocated expenses:										
Interest	13.8		11.9		12.0		8.2		7.8	
Corporate overhead	5.7		5.1		5.0		4.7		4.4	
Total unallocated expenses	19.5		17.0		17.0		12.9		12.2	
Earnings (loss) before income taxes and extraordinary items	$ (7.5)		$ 13.1		$ 8.1		$ 3.1		$ 20.4	

Consolidated Balance Sheet
Food Fair Stores, Inc. and Subsidiaries

August 2, 1975 and August 3, 1974

Assets

	1975	1974
Current assets:		
Cash	**$ 29,689,000**	$ 25,700,000
Marketable securities	**437,000**	530,000
Funds held for retirement of bonds (Note 5)		6,677,000
Accounts receivable, net of allowance for doubtful accounts, $1,429,000, 1975; $880,000, 1974	**16,972,000**	22,913,000
Inventories	**214,770,000**	238,314,000
Prepaid expenses	**10,611,000**	10,457,000
Advances to Fields Credit Corp.	**998,000**	983,000
Refundable income taxes	**2,723,000**	
Total current assets	**276,200,000**	305,574,000
Investments (Notes 3 and 4):		
Fields Credit Corp.	**6,292,000**	6,193,000
Amterre Development Inc (including advances of $1,258,000, 1975; $1,241,000, 1974)	**10,678,000**	10,685,000
Other subsidiaries	**4,661,000**	5,080,000
Miscellaneous	**785,000**	914,000
	22,416,000	22,872,000
Property, plant and equipment:		
Land	**12,268,000**	12,141,000
Buildings and improvements	**61,730,000**	56,232,000
Fixtures and equipment	**138,231,000**	141,502,000
	212,229,000	209,875,000
Less accumulated depreciation	**94,821,000**	93,824,000
	117,408,000	116,051,000
Other assets:		
Accounts and notes receivable, not current	**5,047,000**	4,825,000
Deferred charges	**4,614,000**	4,845,000
Miscellaneous	**3,532,000**	3,583,000
	13,193,000	13,253,000
	$429,217,000	$457,750,000

Liabilities and Shareholders' Equity

	1975	1974
Current liabilities:		
Notes payable (Note 6)	**$ 15,098,000**	$ 7,286,000
Current portion of long-term debt (Note 6)	**6,745,000**	13,923,000
Accounts payable	**108,546,000**	128,389,000
Accrued salaries and other expenses	**39,402,000**	36,111,000
Income taxes (Note 10)		1,775,000
Total current liabilities	**169,791,000**	187,484,000
Other liabilities:		
Long-term debt, net of current portion (Note 6)	**111,033,000**	112,528,000
Lease obligations for closed stores	**169,000**	554,000
Deferred income tax (Note 10)	**13,391,000**	16,533,000
Minority interest in subsidiaries	**322,000**	443,000
	124,915,00	130,058,000
Commitments and contingencies (Notes 10, 12 and 13)		
Shareholders' equity:		
Preferred stock (Note 7)	**2,133,000**	2,177,000
Common stock (Note 8)	**7,557,000**	7,557,000
Capital in excess of par (Note 9)	**51,142,000**	51,125,000
Retained earnings (Note 6)	**74,996,000**	79,996,000
	135,828,000	140,855,000
Less cost of common shares held in treasury (Note 8)	**1,317,000**	647,000
	134,511,000	140,208,000
	$429,217,000	$457,750,000

See notes to consolidated financial statements.

Consolidated Statement of

Income (Loss)

Food Fair Stores, Inc. and Subsidiaries

Years ended August 2, 1975 and August 3, 1974

	1975 (52 weeks)	1974 (53 weeks)
Income:		
Sales	**$2,482,539,000**	$2,369,761,000
Equity in earnings of unconsolidated subsidiaries	**927,000**	1,340,000
Other	**2,592,000**	2,212,000
	2,486,058,000	2,373,313,000
Costs and expenses:		
Cost of sales	**2,006,177,000**	1,905,937,000
Operating, general and administrative expenses	**473,535,000**	442,452,000
Interest	**13,831,000**	11,833,000
	2,493,543,000	2,360,222,000
Income (loss) before income taxes	**(7,485,000)**	13,091,000
Income taxes (benefits) (Note 10)	**(4,051,000)**	4,165,000
Net income (loss)	**($ 3,434,000)**	$ 8,926,000
Net income (loss) per common share	**($ .48)**	$ 1.18

Consolidated Statement of

Retained Earnings

Food Fair Stores, Inc. and Subsidiaries

Years ended August 2, 1975 and August 3, 1974

	1975 (52 weeks)	1974 (53 weeks)
Balance, beginning of year, as previously reported	**$ 79,996,000**	$ 73,790,000
Less adjustment relating to examination by Internal Revenue Service		1,123,000
Balance, beginning of year, restated	**79,996,000**	72,667,000
Net income (loss) for the year	**(3,434,000)**	8,926,000
	76,562,000	81,593,000
Cash dividends paid:		
Preferred stock	**91,000**	94,000
Common stock	**1,475,000**	1,503,000
	1,566,000	1,597,000
Balance, end of year	**$ 74,996,000**	$ 79,996,000

See notes to consolidated financial statements.

Consolidated Statement of

Changes in Financial Position

Food Fair Stores, Inc. and Subsidiaries

Years ended August 2, 1975 and August 3, 1974

	1975 (52 weeks)	1974 (53 weeks)
Source of funds:		
Net income (loss) for the year	($ 3,434,000)	$ 8,926,000
Items not affecting working capital:		
Depreciation	17,444,000	16,865,000
Amortization	274,000	291,000
Deferred income tax	(3,142,000)	1,099,000
Undistributed earnings of unconsolidated subsidiaries	(927,000)	(1,340,000)
Working capital provided from operations	10,215,000	25,841,000
Disposition of property, plant and equipment	1,570,000	2,951,000
Decrease in:		
Other assets		1,279,000
Investments	1,383,000	
Increase in long-term debt	7,109,000	1,052,000
Transfer of funds held for retirement of bonds to current assets		6,898,000
	20,277,000	38,021,000
Application of funds:		
Purchase of property, plant and equipment	20,371,000	16,304,000
Decrease in:		
Long-term debt	8,604,000	18,486,000
Lease obligations for closed stores	385,000	1,363,000
Increase in:		
Other assets	214,000	
Investments		873,000
Payment of cash dividends	1,566,000	1,597,000
Purchase of treasury stock	670,000	611,000
Other changes, net	148,000	
	31,958,000	39,234,000
Decrease in working capital	($11,681,000)	($ 1,213,000)
Summary of net changes in working capital:		
Increase (decrease) in current assets:		
Cash	$ 3,989,000	$ 1,532,000
Marketable securities	(93,000)	76,000
Funds held for retirement of bonds	(6,677,000)	6,677,000
Accounts receivable	(5,941,000)	2,451,000
Inventories	(23,544,000)	38,546,000
Prepaid expenses	154,000	1,029,000
Advances to Fields Credit Corp.	15,000	(3,043,000)
Refundable income taxes	2,723,000	
	(29,374,000)	47,268,000
Increase (decrease) in current liabilities:		
Notes payable	7,812,000	(1,404,000)
Current portion of long-term debt	(7,178,000)	10,224,000
Accounts payable	(19,843,000)	36,585,000
Accrued salaries and other expenses	3,291,000	408,000
Income taxes	(1,775,000)	2,668,000
	(17,693,000)	48,481,000
Decrease in working capital	($11,681,000)	($ 1,213,000)

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements Years Ended August 2, 1975 And August 3, 1974

1. Summary of significant accounting policies:

Fiscal year: The fiscal year of the Company ends on the Saturday nearest to July 31. Fiscal year 1975 ended August 2, 1975 (52 weeks); fiscal year 1974 ended August 3, 1974 (53 weeks).

Basis of consolidation: The consolidated financial statements include the accounts of the Company and its wholly and majority owned subsidiaries, except the life insurance and credit companies. All significant intercompany balances and transactions have been eliminated. Intercompany profits, if any, in the inventories, are not significant.

Investments in the life insurance and credit companies, 50% owned companies and Amterre Development Inc are stated at the Company's equity in net assets.

Marketable securities: Marketable securities are stated at cost.

Inventories: Inventories are stated at cost (first-in, first-out or average), which is market or lower. The retail method of accounting is used with respect to inventories of merchandise in stores.

Investments, miscellaneous: Miscellaneous investments are stated at cost.

Property, plant and equipment: Property, plant and equipment are stated at cost. Depreciation for financial reporting purposes is computed on the straight-line method over the estimated useful lives of the assets. For income tax reporting purposes, depreciation is computed by accelerated methods.

Provision for credit losses and charge off policy: Provision for losses on customers' accounts arising from credit sales is made to maintain adequate reserves to cover anticipated losses. Customers' accounts are charged off against the reserve if no payment is received for a stipulated period, or if accounts become uncollectible for other reasons.

Income taxes: Income taxes are provided on all transactions included in the determination of financial income. Where such transactions are included in the determination of taxable income in a different year, such as the acceleration of depreciation and the deferral of gross profit on installment sales, the resulting tax benefits are deferred. Current investment tax credits are being taken into income as the related assets are placed in service.

Other: Debt expense is being amortized over the term of the debentures. If debentures are retired prior to maturity, the unamortized discount and expense is charged to operations.

The excess of cost over net assets of a business acquired in 1971 is being amortized over forty years.

Pre-opening expenses of J. M. Fields department stores are deferred and charged to operations over a three year period. With respect to food stores, losses incurred in the initial three months by new stores, remodeled stores, and stores converted to discount operations are deferred and amortized over a three year period.

Pension plans: Pension expense includes normal cost and amortization of prior service costs over a forty year period. The Company's policy is to fund pension costs accrued.

Net income (loss) per common share: Net income (loss) per common share is based on the weighted average number of shares outstanding during the years. Warrants and convertible subordinated notes have no dilutive effect.

2. Reclassification: The financial statements for fiscal 1974 have been reclassified to conform with the presentation for 1975.

3. Investment, Fields Credit Corp.: Fields Credit Corp. purchases the revolving credit and installment sales accounts of J. M. Fields, Inc. The accounts are transferred with recourse and, accordingly, bad debt losses are recorded in the accounts of J. M. Fields, Inc. Pretax earnings of $190,000 in 1975 and $354,000 in 1974 have been included in the consolidated statement of income as a reduction of interest expense. The balance sheet of Fields Credit Corp. at August 2, 1975 and August 3, 1974 is as follows:

	1975	1974
	(000's omitted)	
Assets		
Cash	$ 133	$ 82
Due from J. M. Fields, Inc.	1,187	550
Customers' receivables	34,669	35,745
Unearned income	(695)	(1,248)
Allowance for doubtful accounts	(510)	(517)
	$34,784	$34,612

3. Investment, Fields Credit Corp. (continued):

Liabilities and Equity		
Notes payable, banks	$27,200	$27,000
Advances from Food Fair Stores, Inc.	998	983
Accrued expenses	294	436
Subordinated notes payable to Food Fair Stores, Inc.	5,900	5,900
Equity of Food Fair Stores, Inc.	392	293
	$34,784	$34,612

4. Investment, Amterre Development Inc (Amterre): The Company owns all of the preferred stock and 40% of the common stock of Amterre. At August 2, 1975 the value of the preferred stock was $2,000,000 and the market value of the common stock was $3,333,000 based on a quoted bid price of $1 per share.

Income from Amterre, including dividends on the preferred stock, was $89,000 in 1975 ($.01 per share) and $354,000 in 1974 ($.05 per share).

Condensed financial statements of Amterre are as follows:

Consolidated balance sheet:

	December 31, 1974	December 31, 1973
	(000's omitted)	
Assets		
Investment in property and equipment, at cost, net of accumulated depreciation	$242,710	$240,851
Other	10,562	10,097
	$253,272	$250,948
Liabilities		
Notes, mortgages and debentures payable	$218,013	$212,832
Construction loans payable	3,731	4,900
Other	10,974	12,602
	232,718	230,334
Shareholders' equity	20,554	20,614
	$253,272	$250,948

Consolidated statement of income:

	Year ended December 31, 1974	1973
	(000's omitted)	
Income	$36,662	$34,179
Expenses, net	36,558	33,055
Income before income taxes	104	1,124
Income taxes	44	351
Net income	$ 60	$ 773

The accountants' report on the examination of the consolidated financial statements of Amterre for 1974 was qualified with respect to the ultimate realization of Amterre's investment in certain property (Gateway Urban Renewal Project). This project consists of two office buildings and a motor inn. One office building is leased to a single tenant and has attained profitable operations. The motor inn sustained a loss of $236,000 before income tax credit in 1974 and, in view of present economic conditions, it is expected that 1975 operations will also be unprofitable.

The operations of the second office building resulted in a loss in 1974 of $1,462,000 before income tax credit. The building had attained an occupancy rate of approximately 79% at December 31, 1974. Current projections indicate that the property will continue to sustain substantial operating losses in the immediate future, even if a normal level of occupancy is reached. The inability to lease additional space, the current interest charges on permanent and interim financing and escalating operating expenses not presently recoverable from tenants have contributed to the unprofitable operations.

The cost of the combined properties, net of accumulated depreciation, is $60,000,000. The related debt consists of first mortgages aggregating $46,000,000 and a second mortgage with a bank of $8,000,000. Amterre is presently negotiating with the mortgagees for a reduction in the interest rate on the debt and, if successful, the decrease in annual interest expense will have a significant positive effect on the combined operations of the Newark Project.

The ultimate realization of Amterre's investment in the properties is dependent on its ability to reduce vacancies in the one office building, to attain profitable operations in the motor inn and to successfully conclude negotiations with the mortgagees for a reduction in the interest rate on the debt. Present economic conditions,

4. Investment, Amterre Development Inc. (Amterre) (continued)

and the uncertainty of future conditions, are such that the ultimate realization cannot be reasonably determined.

5. Funds held for retirement of bonds: This amount represents certificates of deposit held by the trustee for the redemption of the 3⅜% sinking fund debentures, retired on September 1, 1974.

6. Indebtedness:

	Rate	Amount (000's omitted)	Maturity
Notes:			
Banks	7% to 116% of prime	$ 24,121	1975-1980
Other	5%-8.75%	6,630	1975-1984
Mortgages	4.75%-10.5%	15,924	1976-1998
Convertible subordinated notes	4%	960	1977
Subordinated debentures	4%	12,260	1979
Subordinated notes	8.5%	23,000	1984
Sinking fund debentures	8.375%	34,883	1996
		117,778	
Less current portion		6,745	
		$111,033	

Convertible subordinated notes (4%) are convertible into common stock at $24.01 per share through May 12, 1977 and require annual principal payments of $480,000.

Subordinated debentures (4%) require annual sinking fund payments of $967,000. The sinking fund requirements for the year ending July 31, 1976 have been anticipated.

Subordinated notes (8.5%) require annual payments of $2,000,000.

Sinking fund debentures (8.375%) require annual sinking fund payments of $1,750,000 commencing January 15, 1977.

The indentures covering the issuance of the debentures and notes described above contain restrictions as to the payment of cash dividends, the redemption of shares of stock of the Company, working capital and shareholders' equity. The maximum amount of retained earnings so restricted was $64,211,000 and $60,847,000 at August 2, 1975 and August 3, 1974, respectively.

At August 2, 1975, the Company had lines of credit available from various banks totalling $84,400,000 at the prevailing prime interest rate; of this amount, $66,700,000 was unused. These lines are supported by the Company's normal cash balances maintained on a daily basis and there is no legal restriction on the availability of such balances. During fiscal 1975, short-term borrowings averaged approximately $32,800,000 (maximum $43,300,000) at an average interest rate of 9.2%.

7. Preferred stock: Preferred stock is $4.20 cumulative, $15 par (stated at liquidating value of $100 per share); 108,190 shares are authorized, of which 21,328 and 21,768 are outstanding at August 2, 1975 and August 3, 1974, respectively. The Company is obligated to set aside $120,000 semi-annually as a sinking fund for the redemption of the preferred stock, which may be called for this purpose at $100 per share plus accrued dividends.

8. Common stock: Common stock is $1 par; 10,000,000 shares are authorized, of which 7,557,378 are issued. Shares acquired for the treasury are 196,577 at August 2, 1975 and 86,749 at August 3, 1974.

At August 2, 1975, warrants to purchase 416,160 shares of common stock were outstanding. These warrants are exercisable at $23.05 per share and expire December 17, 1979.

9. Capital in excess of par: The increase in capital in excess of par during the years ended August 2, 1975 and August 3, 1974 represents the excess of stated value over cost of cumulative preferred stock retired.

10. Income taxes: The provision for income taxes or tax benefits is comprised of the following:

	1975	1974
	(000's omitted)	
Federal:		
Current	($1,232)	$4,067
Deferred	(3,142)	1,099
Investment tax credit		(2,541)
State	323	1,540
	($4,051)	$4,165

For the fiscal year 1974, the financial income subject to tax includes approximately $1,350,000 taxable at capital gains rates.

For the fiscal year 1975, unused investment tax credits available for financial reporting purposes at August 2, 1975 ($3,500,000) have been applied in reduction of deferred income taxes.

The Company and its subsidiaries file a consolidated Federal income tax return. At August 2, 1975, the Company has available for Federal income tax purposes

10. Income taxes (continued):

net operating loss and investment tax credit carryforwards of approximately $3,000,000 and $5,600,000, respectively. The net operating loss carryforward expires in 1980; the investment tax credit carryforwards expire as follows:

Fiscal year end	Amount
1978	$ 500,000
1979	1,400,000
1980	1,700,000
1981	900,000
1982	1,100,000
	$5,600,000

The Federal income tax returns of the Company and certain subsidiaries have been examined by Internal Revenue Service for the fiscal years 1964 through 1968. The Service has proposed adjustments which would result in additional taxes of approximately $9,000,000, exclusive of interest. Since the material issues may be litigated, it is not presently possible to estimate the ultimate outcome of the tax controversies.

11. Pension plans: The Company and its subsidiaries have several noncontributory pension plans covering certain hourly and salaried employees. Pension expense for the years ended August 2, 1975 and August 3, 1974 was $1,201,000 and $1,135,000, respectively. The total assets of the plans exceeded the actuarially computed value of vested benefits.

12. Contingencies: The Company is contingently liable at August 2, 1975 for accounts receivable aggregating $11,046,000 sold to a bank with recourse.

13. Leases: At August 2, 1975, the Company was lessee under leases covering principally retail locations and distribution centers. Realty lease terms generally range to twenty-five years, with options of renewal for additional periods. Equipment leases expire at various dates through 1985.

For purposes of the following disclosure, the Company has made a distinction between financing lease arrangements and other lease arrangements. Total rental expense, net of sublease rental income, for the years ended August 2, 1975 and August 3, 1974 was as follows:

	1975	1974
	(000's omitted)	
Financing leases:		
Minimum rentals	$22,274	$21,387
Rentals based on sales	497	406
Sublease rentals	(1,956)	(1,857)
	20,815	19,936
Other leases:		
Minimum rentals	14,764	14,855
Rentals based on sales	1,715	1,440
Sublease rentals	(572)	(576)
	15,907	15,719
	$36,722	$35,655

Rental expense for financing leases includes payments to unconsolidated affiliated real estate companies of $14,081,000 and $14,200,000 in 1975 and 1974, respectively.

Minimum rental commitments, exclusive of taxes and other costs paid by the Company, are approximately as follows for the fiscal years indicated:

Years	Net all leases	Financing leases	Other leases	Sublease rental income: Financing leases	Sublease rental income: Other leases
	(000's omitted)				
1976	$ 33,789	$ 22,215	$ 13,738	($ 1,645)	($ 519)
1977	33,361	22,203	12,961	(1,327)	(476)
1978	32,656	22,070	12,219	(1,219)	(414)
1979	31,860	22,044	11,279	(1,104)	(359)
1980	30,289	21,588	10,013	(1,001)	(311)
1981-1985	120,166	90,734	33,187	(2,794)	(961)
1986-1990	81,122	63,892	18,938	(1,506)	(202)
1991-1995	49,717	46,161	4,746	(1,155)	(35)
Thereafter	24,201	17,942	6,478	(219)	
	$437,161	$328,849	$123,559	($11,970)	($3,277)

The present value of the minimum lease commitments for financing leases was $191,621,000 at August 2, 1975 and $194,723,000 at August 3, 1974, based on calculations using interest rates ranging from 4.25% to 10.5%. The weighted average interest rates were 6.96% and 6.91% for 1975 and 1974, respectively.

If, instead of recording rental expense, all financing leases were capitalized, related assets were amortized

13. Leases: (continued)

on a straight-line basis and interest costs were accrued on the basis of outstanding lease liability, the effect on net income would be as follows:

	1975	1974
	(000's omitted)	
Amortization of lease rights	$11,141	$10,888
Interest costs	13,422	13,488
	24,563	24,376
Rental expense	22,771	21,793
	1,792	2,583
Allocated income taxes	860	1,240
Increase in expense	$ 932	$ 1,343

Stock Price Data

The following table indicates the high and low sales prices of the Company's common stock on the New York Stock Exchange for the fiscal quarters indicated.

	Fourth	Third	Second	First
1975				
High	5⅞	6¼	6	6¼
Low	4⅝	4⅝	3⅞	4½
1974				
High	7¾	9	7½	8½
Low	5¼	7⅛	6	6½

A cash dividend of 5¢ a share was paid in each of the fiscal quarters.

Accountants' Report

The Board of Directors and Shareholders
Food Fair Stores, Inc.

We have examined the consolidated balance sheet of Food Fair Stores, Inc. and Subsidiaries as at August 2, 1975 and August 3, 1974, and the related consolidated statements of income (loss), retained earnings and changes in financial position for the fifty-two and fifty-three weeks, respectively, then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company's investment in Amterre Development Inc at August 2, 1975, stated on the equity basis, aggregated $9,420,000. The accountants' report on the examination of the consolidated financial statements of Amterre for the year ended December 31, 1974 was qualified with respect to the ultimate realization of Amterre's investment in certain property. The realization of the Company's investment in Amterre is subject to the material uncertainty described in Note 4.

As described in Note 10, the Federal income tax returns of the Company and certain subsidiaries have been examined by Internal Revenue Service for the fiscal years 1964 through 1968. The Service has proposed adjustments which would result in additional taxes of approximately $9,000,000, exclusive of interest. Since the material issues may be litigated, it is not presently possible to estimate the ultimate outcome of the tax controversies.

In our opinion, subject to the effect of the matters discussed in the preceding paragraphs, the aforementioned financial statements present fairly the consolidated financial position of Food Fair Stores, Inc. and Subsidiaries at August 2, 1975 and August 3, 1974, and the consolidated results of their operations and changes in their financial position for the fifty-two and fifty-three weeks, respectively, then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Laventhol & Horwath

Philadelphia, Pa.
October 20, 1975

Corporate Officers

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Chairman of the Board

Jack Friedland
President
Chief Executive Officer

J. A. Berger
Vice President
Director of Manufacturing & Food Processing

Harold Friedland
Vice President
Director of Buying and Merchandising

***Jacob I. Gottlieb**
Vice President
President, J. M. Fields, Inc.

J. Arvid Jonsson
Vice President
Director of Industrial Relations

S. Robert Silverman
Vice President
Director of Distribution

B. F. Lieber
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Leo Dicandilo
Treasurer

Franklin A. Gaber
Assistant Treasurer

Leobe Chaimson
Assistant Secretary

Samuel Forman
Assistant Secretary

Edmond O'Neill
Assistant Secretary

Harvey Richards
Assistant Secretary

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Limited Partner
Eastman Dillon, Union Securities & Co.

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First Pennsylvania Bank, N.A.

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Chairman of the Finance Committee

W. Paul Stillman
Chairman
The First National State Bank of New Jersey
The Mutual Benefit Life Insurance Co.

*Deceased, August 9, 1975

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General Counsel Stein Rosen & Ohrenstein, 1370 Avenue of the Americas, New York, N.Y. 10019
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Registrar The Chase Manhattan Bank N.A., 1 Chase Manhattan Plaza, New York, N.Y. 10015
Certified Public Accountants Laventhol & Horwath, 1845 Walnut Street, Philadelphia, Pa. 19103

Divisional Officers

Pantry Pride Supermarket Division

Herbert Carlis
Vice President
Jacksonville Region

David Epstein
Vice President
Dairy Buying and Merchandising

Seymour I. Friedman
Vice President
Linden Region

Marvin Lerner
Vice President
Operating Services

Clarence J. MacManus
Vice President
Southern Region

Jack Marcus
Vice President
Produce and Bakery Merchandising

Jack Miller
Vice President
Meat, Delicatessen, Seafood Operations

Jack Millman
Vice President
Philadelphia Region

Jack Silverman
Vice President
Produce Buying and Packaging Operations

Sheldon B. Sosna
Vice President
Marketing

Beryl Weinstein
Vice President
Grocery Buying and Merchandising

Herbert Zandler
Vice President
Baltimore Region

Sidney Beck
Assistant Vice President
Seafood Buying and Merchandising

Ronald Stubin
Assistant Vice President
Delicatessen Buying and Merchandising

Robert Wein
Assistant Vice President
Produce Buying and Packaging

Tulip Construction Division

Marvin Kushner
Vice President

Tulip Real Estate Division

Sidney Tucker
Vice President

Manufacturing Division

Robert Gerberg
Vice President-Marketing and Planning

J. M. Fields, Inc.

*Jacob I. Gottlieb
President

Robert M. Hunt
Senior Vice President-Sales and Operations

Ralph Blumenstock
Vice President
General Merchandise Manager-Apparel

Howard Siegrist
Vice President-Merchandise Control

Edward Raskind
Vice President-Market Development-Northern Region

Robert Triglia
Vice President-Market Development-Southern Region

John R. Johnson
Treasurer

Ideal Shoe Company

Leonard Pasternak
President

Alexander Aezen
Vice President

Milton Trachtenberg
Vice President

Harry Haber
Treasurer

MGS Incentives Company

Harold H. Rubin
President

Washington Square Life Insurance Co.

Jay Gross
Vice President

Food Fair Stores, Inc.

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